

# THE BOND BUYER

THE DAILY NEWSPAPER OF PUBLIC FINANCE

## S&P's Rate of Upgrades Accelerates in April

Bond Buyer | Monday, May 5, 2008

By [Dakin Campbell](#)

Standard & Poor's in April continued making rating changes to public finance credits at a much higher rate than its peers, upgrading municipal credits at a rate of 18.6 upgrades for every downgrade.

From April 4 through May 1, the rating agency made 236 rating changes, according to analysis by The Bond Buyer of information obtained through Standard & Poor's Ratings Direct. Of those, 224 were upgrades compared to 12 downgrades.

By comparison, Fitch Ratings has made 16 changes, split evenly between upgrades and downgrades, while Moody's Investors Service made 65 changes, 41 of which were upgrades and 24 were downgrades. This data is compiled from rating reports sent to The Bond Buyer and is not comprehensive.

The pace of the changes, and the overwhelming preponderance of upgrades, has led some market participants to question the rating agency's intentions. The California treasurer, Bill Lockyer, and certain members of Congress have been outspoken in recent weeks against municipal ratings that appear to penalize municipal issuers, when compared to other fixed-income markets, despite historically low default rates.

"Perhaps S&P's actions are a response to issuer criticism that its ratings are too low in light of miniscule default rates," said Richard Larkin, director of research at Herbert J. Sims & Co.

However, Bill Montrone, managing director and head of Standard & Poor's U.S. public finance group, said the agency has been upgrading municipal credits since completing its first default study in 2001. Between 2000 and 2007, the rating agency upgraded 5,318 credits, according to the latest default study: "U. S. Municipal Rating Transitions And Defaults, 1986-2008," published March 20.

"This has been an effort on our part to look at the performance of our sector historically and to allow those performance statistics to shape our thinking going forward," Montrone said. "We have concluded that rating strength is improving and we have taken the appropriate action."

Standard & Poor's now looks at general obligation, full faith and credit, issues as having a minimum of an A rating, unless analysts can point to a specific stress that would necessitate a lower rating, Montrone said. The GO ratings, and the ratings of all the other credits that have been upgraded, were determined through a systematic analysis of individual credits, and sectors, and not across categories, Montrone said.

Early in March, Standard & Poor's said it made an "internal" decision not to publish a trend report of ratings actions in the first quarter, during which period the agency made a similar high percentage of ratings upgrades compared to downgrades.

Analysis by The Bond Buyer shows that the agency took 233 ratings actions in the quarter, of which 192 were upgrades and 41 were downgrades, for an upgrade-to-downgrade ratio of 8.4-to-1. In the same time period, Moody's made 144 changes and Fitch made 17 changes.

This led some market participants to question whether the rating agency was hurriedly moving municipal credit ratings up its global scale to make their ratings more in line with corporate ratings and default histories, a characterization that Montrone denies.

"We feel that this is where these credits belong on our global scale," he said.

"We haven't mapped to any other sector."

In total this year, Standard & Poor's has upgraded 416 credits, versus only 42 downgrades, through May 1, an upgrade-to-downgrade ratio of 9.9. That would put it on pace for roughly 1,200 upgrades this year, versus about 120 downgrades, if the current trends continue.

Last year, the agency upgraded 664 credits versus 189 downgrades, for a ratio of 3.5, according to the year-end ratings action roundup the agency published. In 2006, Standard & Poor's upgraded 827 credits, while downgrading 152, for an upgrade-to-downgrade ratio of 5.4.

One of the questions market participants watching Standard & Poor's activity this year have raised is that the agency has chosen to upgrade these credits at a time when many are suggesting the credit quality of issuers is declining due to a slowing economy and tax receipts, and increasing pension obligation costs.

"These mass upgrades are coming at a time when most analysts are expecting credit rating deterioration because of escalating economic weakness in the financial services and real estate sectors," Larkin said.

Montrone said while some of these factors may be overblown - like pension costs - others may take time to wind their way through the system.

"Obviously many of these factors do not impact a water sewer system, or sales

tax credits that have multiple levels of coverage," he said. "Any economic downturn takes time to work its way through the local sector which is primarily funded by property taxes. Having just come through a strong period of growth, the local sector has some financial flexibility that they can use to make it through this period."

---

© 2008 The Bond Buyer and SourceMedia Inc., All rights reserved. Use, duplication, or sale of this service, or data contained herein, except as described in the subscription agreement, is strictly prohibited. Trademarks page.

Client Services 1-800-221-1809, 8:30am - 5:30pm, ET

For information regarding Reprint Services please visit: [http://license.icopyright.net/3.7745?icx\\_id=20080502UZOEB08G](http://license.icopyright.net/3.7745?icx_id=20080502UZOEB08G)